

Message Text

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ACTION EUR-12

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FM AMEMBASSY WARSAW

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INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMCONSUL KRAKOW

AMCONSUL POZNAN

C O N F I D E N T I A L WARSAW 1618

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: MEAT PROBLEMS REVEAL BASIC FLAWS IN POLISH ECONOMY

REF: (A) WARSAW 1500; (B) WARSAW 1503 (C) WARSAW 1526

1. SUMMARY: THE GIEREK REGIME'S PROBLEMS WITH MEAT AND BUTTER SUPPLIES (SEE REFTELS) DEMONSTRATE THE DIFFICULTIES IT IS HAVING TRYING TO KEEP POLISH WORKERS HAPPY BY INCREASING THE AVAILABILITY OF CONSUMER GOODS WHILE KEEPING PRICES LOW. END SUMMARY.

2. SHORTLY AFTER THE GIEREK GOVERNMENT CAME TO POWER IN 1970, IT SHARPLY INCREASED PRICES PAID TO FARMERS FOR ANIMALS BROUGHT TO SLAUGHTER. THESE HIGHER PRICES HAVE ACHIEVED THEIR GOAL: FARMERS HAVE INCREASED THEIR HERDS
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AND IMPROVED THEIR FEEDING. PRODUCTION OF MEAT AND MEAT

PRODUCTS INCREASED BY OVER 10 PERCENT A YEAR SINCE 1970. TOOTAL PRODUCTION, AFTER HAVING BEEN STAGNANT FOR MANY YEARS, ROSE FROM 1.7 MILLION METRIC TONS IN 1970 TO 2.9 MILLION METRIC TONS IN 1974

3. SUCH RAPID PRODUCTION INCREASES SHOULD HAVE RESULTED IN A LARGE SURPLUS OF MEAT FOR EXPORT. POLISH DEMAND FOR MEAT, HOWEVER, HAS LONG BEEN SUPPRESSED BY THE INADEQUATE SUPPLIES AVAILABLE IN MEAT STORES. GOVERNMENTS IN THE PAST HAVE HAD TO DECIDE HOW MUCH OF A MEAT SUPPLY WOULD BE ENOUGH TO MAINTAIN POLITICAL STABILITY. GIEREK'S PERFORMANCE IN SUPPLYING MEAT HAS BEEN BETTER THAN THAT OF ANY OF HIS PREDECESSORS AND PER CAPITA MEAT CONSUMPTION DURING HIS TENURE HAS RISEN BY ALMOST 30 PERCENT TO ABOUT 66 KG PER YEAR. STILL HIS PERFORMANCE WAS NOT ENTIRELY ADEQUATE, FOR, AS MEAT SUPPLIES INCREASED, THE EXPECTATIONS OF POLISH CONSUMERS INCREASED EVEN FASTER.

4. GIEREK'S PROBLEM WAS EXACERBATED BY THE OVERALL EXCESS LIQUIDITY WHICH THE COUNTRY HAS BEEN EXPERIENCING OF LATE (SEE WARSAW'S A-344 OF DEC. 14, 1974). POLISH WORKERS HAVE RECEIVED SUBSTANTIAL WAGE INCREASES OVER THE LAST FOUR YEARS, WHILE MOST RETAIL PRICES (INCLUDING THOSE FOR MEAT) HAVE BEEN FROZEN AND THE PRODUCTION OF CONSUMER GOODS DID NOT KEEP PACE WITH THE GROWTH OF WAGES. IN CONFRONTING THIS EXCESS LIQUIDITY, THE GOVERNMENT HAS BEEN ABLE TO PROVIDE ADEQUATE SUPPLIES OF THE BASICS OF FOOD AND DRESS. THEREFORE, THE EXCESS ZLOTYS HAVE BEEN PURSUING SCARCE LUXURY ITEMS SUCH AS NEW APARTMENTS, MORE MODERN FURNITURE AND AUTOS, AS WELL AS ADDITIONAL MEAT. SUPPLIES HAVE NOT BEEN ABLE TO KEEP UP WITH THE EFFECTIVE DEMAND.

5. WHEN THE USPPPLY OF MEAT DOES NOT KEEP UP WITH THE POPULATION'S EXPECTATIONS, THE GOVERNMENT CAN CHANNEL SOME OF THE COUNTRY'S MEAT EXPORTS INTO DOMESTIC CONSUMPTION, AS IT APPARENTLY IS DOING AS A RESULT OF THE RECENT CRISIS. SINCE MEAT EXPORTS CONSTITUTE ONLY

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10 PERCENT OF TOTAL PRODUCTION AND CONSUMPTION SEEMS TO HAVE TO INCREASE BY NEARLY THAT AMOUNT TO KEEP UP WITH EXPECTATIONS, THIS "SAFETY VALVE" CANNOT BE USED VERY OFTEN. IN ADDITION, MUCH OF THE SLACK IN POLAND'S ANTIQUATED MEAT PRODUCTION TECHNIQUES HAS BEEN TAKEN UP IN THE LAST COUPLE OF YEARS AND IT WILL BE DIFFICULT TO CONTINUE THE REATES OF PRODUCITON INCREASE RECNETLY ACHIEVED.

6. TO EVEN PARTIALLY MAINTAIN RATES OF PRODUCTION INCREASE, PRODUCER PRICES, WHICH WERE RAISED SIGNIFICANTLY IN 1971 AND 1972, PROBABLY WILL HAVE TO BE RAISED AGAIN OR FEED PRICES FURTHER SUBSIDIZED. EVEN IF THESE PRODUCER AND OR FEED PRICES ARE ADJUSTED, THE GOVERNMENT PROBABLY WILL HAVE TO RESORT TO INCREASED IMPORTS TO KEEP ABREAST OF THE POPULATION'S DESIRES FOR INCREASED AMOUNTS OF MEAT.

7 REDUCING MEAT EXPORTS AND INCREASING MEAT IMPORTS WILL BE PAINFUL, SINCE INCREASED EARNINGS FROM MEAT EXPORTS WERE COUNTED UPON TO HELP MEET THE COUNTRY'S PRESSING NEEDS FOR FOREIGN EXCHANGE.

8. COMMENT: IN CONFRONTING THIS MEAT SITUATION, AS WELL AS OTHER CONSUMER GOODS SHORTAGES, THE POLISH GOVERNMENT PROBABLY WILL CONTINUE TAKING PIECEMEAL, PALLIATIVE MEASURES. MORE DECISIVE MEASURES TO DEAL WITH THE PROBLEM WOULD INCLUDE INCREASING RETAIL PRICES OR OTHERWISE REDUCING REAL WAGES OR SHARPLY INCREASING PRODUCTION OF CONSUMER GOODS AT THE EXPENSE OF INVESTMENT GOODS AND THUS REDUCING GROWTH RATES. THESE MORE DECISIVE MEASURES APPARENTLY HAVE BEEN RULED OUT BY THE GIEREK REGIME AS TOO RISKY POLITICALLY. THEREFORE, OVER THE COMING MONTHS THE GIEREK GOVERNMENT CAN BE EXPECTED TO CONTINUE TAKING SHORT, INDECISIVE STEPS ON ITS ECONOMIC "TIGHTROPE", WHILE THE WEIGHT OF ECONOMIC REALITY PRESSES DOWN FROM ABOVE AND UNCERTAIN POLITICAL CONSEQUENCES AWAIT BELOW.
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